

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
March 19, 2004**

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice chair
Garland Ferrell
Connie Thurman
Robert Welch

Others Present

Craig Hartzler, PERF Executive Director
Bruce Kimery, PERF Deputy Executive Director/Chief Benefits Officer
Lesia Julian, PERF General Counsel

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(7) and IC 5-14-1.5-6.1(b)(2).

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland Ferrell
Connie Thurman
Robert Welch

Others Present

Mary Beth Braitman, Ice Miller
Doug Todd, McCready & Keene
Elaine Beaty, McCready & Keene
David R. Gillay, Covansys Corporation/Barnes & Thornburg
Craig Hartzler, PERF Executive Director
Bruce Kimery, PERF Deputy Executive Director/Chief Benefits Officer
Leisa Julian, PERF General Counsel
Michael Horstman, PERF Chief Financial Officer
Diann Clift, PERF MIS Director
Carolyn Bradley, PERF Internal Auditor
Cindy Osborne, PERF Minute Writer

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

A. Board Book

I. APPROVAL OF MINUTES

MOTION duly made and carried to approve the Minutes of the February 20, 2004 Board of Trustees Meeting.

Proposed by: Garland Ferrell

Seconded by: Connie Thurman

Votes: Five in favor, 0 against, 0 abstentions.

II. OLD BUSINESS

A. Legislative Update. Mr. Hartzler outlined two major bills. The first was the PERF COLA which was passed with bipartisan support. This bill provides the 2% COLA for PERF members starting January 1, 2005. Mr. Hartzler noted that the second bill, 1285, was signed by the Governor the evening before. Mr. Hartzler noted that this bill put one issue that was in a bill sponsored by Representative Gooden into a study committee. This bill would have forced PERF to refund money made through voluntary contributions to members ASA accounts for people with hardships. Mr. Hartzler noted that the second part of the bill was to make confidential all of the records for police and fire, conservation and excise, legislators, judges and prosecutors, except those records that are already public under the PERF confidentiality statute, which are names and years of service. Mr. Hartzler noted that the effective date will be retroactive to September 1, 2003. Mr. Hartzler noted that all the other funds that PERF administers are now under the same confidentiality statute as the main PERF fund.

B. Policy Update. Mr. Kimery noted that all policies that were to be recommended for approval at this Board meeting were passed out at last month's Board meeting, but he had additional copies for anyone that needed them. Mr. Kimery noted that all policies, with the exception of the Overtime Compensation Policy, be considered for approval at this time. Mr. Kimery noted that these policies were prepared through the work of an internal work group that consisted of colleagues from all sections and ranks from within the agency. This work group reviewed the current policies and reviewed best practices from other agencies. This work group also queried some of our sister organizations to develop policies that would be appropriate for PERF. Those policies then went through a review and legal process. Mr.

Kimery noted that each PERF employee would get a binder containing all the new policies. Mr. Kimery noted that future updates would be posted on our Intranet and that employees would be informed when policies were revised or new ones were available and instructed to the proper location on the Intranet to enable them to keep their binder current.

MOTION duly made and carried to adopt the updated PERF policies.

Proposed by: Connie Thurman
Seconded by: Robert Welch
Votes: Five in favor, 0 against, 0 abstentions.

III. NEW BUSINESS

- A. Amendment to Pre-Employment Screening Policy Statement. Ms. Julian noted that in October of 2002, the Board of Trustees adopted the Pre-Employment Screening Policy Statement. This policy states that the Personnel Department would assist PERF in hiring high level or critical positions. Ms. Julian noted that this inclusion has not worked well for PERF and as a result, staff recommended requested the removal of that provision. Ms. Julian noted that PERF handles all hiring internally and that a representative from the State Personnel Department does not sit in on the interviews. Ms. Julian noted that this policy statement was developed in conjunction with some of the background checks and at this time needs further refinement. Ms. Julian noted that PERF is bringing a recommendation to the Board to eliminate that paragraph and Ms. Julian also requested that this be approved retroactively to 1/1/03.

MOTION duly made and carried to approve the changes as recommended to the Pre-Employment Screening Policy Statement and that the changes be retroactive to January 1, 2003.

Proposed by: Garland Ferrell
Seconded by: Robert Welch
Votes: Five in favor, 0 against, 0 abstentions.

- B. Indiana Pensions Systems, Inc. Amendment #1 to Formation Agreement. Ms. Julian noted that the Indiana Pensions Systems, Inc. (IPSI) is a non-for-profit corporation that TRF and PERF created to address computer needs. Ms. Julian noted that IPSI would like to amend the timelines of that formation agreement to accurately reflect the status of where they are today. Ms. Julian noted that Amendment #1 reflects the new timelines for consideration.

MOTION duly made and carried to approve the Indiana Pension Systems, Inc. Amendment #1 to the Formation Agreement.

*Proposed by: Garland Ferrell
Seconded by: Robert Welch
Votes: Five in favor, 0 against, 0 abstentions.*

- B. Contribution Rate. Mr. Hartzer noted that the Board needs to set contribution rates for the political subdivisions of the State for an effective date of July 1 of each year. This is based upon the work performed by Mr. Todd and his colleagues from McCready & Keene. Mr. Hartzer noted that action regarding the contribution rate will be requested at the April Board meeting allowing adequate time to notify the political subdivisions and the State about the new contribution rates. Mr. Hartzer noted that, in the past, there has been criticism because not enough notice was given to get the contribution rates into the budget. Mr. Todd provided a history of the process he follows and some major assumptions he uses in doing the valuation. Mr. Hartzer noted that the Board will receive a breakdown of all the rates for all political subdivisions and the State prior to the April Board meeting.
- C. Presentation of Plaque. Chair Birge presented a plaque to Ms. Bradley in recognition of her service to PERF.
- D. Committee Reports.
1. Investment Committee Report. Mr. Doermer noted that all Board members were present during the Investment Committee meeting.
- Mr. Doermer noted that after an extensive discussion regarding the guaranteed fund rate for the savings account portion of the retirement plan, it was concluded that they would fix the rate at 6¼% for the year to commence July 1, 2004 to expire June 30, 2005. Mr. Doermer noted that the Investment Committee recommended that the Board adopt a policy for fixing annual guaranteed rates at a level based upon the moving average of the previous five years subject to a limit of ½ of 1% either up or down so that in no year would the level rise to a level greater than ½ of 1% nor would it fall below ½ of 1%.

MOTION duly made and carried to accept the recommendation of the Investment Committee and adopt a policy for fixing annual guaranteed rates based upon the formula discussed and the 6¼% rate for the year to commence July 1, 2004 with the Board retaining the right to change the rate in subsequent years.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions.

- Mr. Doermer noted that the Investment Committee discussed in detail and is recommending approval by the Board a Restatement of the Investment Policy for PERF.

MOTION duly made and carried to adopt the restated Investment Policy.

Proposed by: Richard Doermer
Seconded by: Robert Welch
Votes: Five in favor, 0 against, 0 abstentions.

- Mr. Doermer noted that the Investment Committee discussed the significant personnel changes suffered by Merrill Lynch and the necessity of the PERF executive director to terminate them as a manager. Mr. Doermer noted that the Investment Committee approved the executive director's decision and is now requesting Board approval.

MOTION duly made and carried to accept the decision of the PERF executive director to terminate Merrill Lynch as a manager.

Proposed by: Richard Doermer
Seconded by: Connie Thurman
Votes: Five in favor, 0 against, 0 abstentions.

- Mr. Doermer noted that due to the termination of Merrill Lynch, the PERF executive director hired Barclay Group International (BGI) to manage the portfolio until such time as a new manager is selected. Mr. Doermer noted that the Investment Committee approved that action and is now recommending approval by the Board.

MOTION duly made and carried to temporarily invest the portfolio with BGI pending a new manager search.

Proposed by: Richard Doermer
Seconded by: Connie Thurman
Votes: Five in favor, 0 against, 0 abstentions.

2. Audit and Budget Committee Report. Mr. Ferrell noted that all Board members were present during the Audit and Budget Committee meeting.

- Mr. Ferrell noted that the Audit and Budget Committee reviewed updates on the audit process.

- Mr. Ferrell noted that the Audit and Budget Committee reviewed the request from PERF for additional funding. Chair Birge noted that he would refrain from becoming involved in discussion and abstain from voting on the Litigation segment of this request. The following was presented as a breakdown of the funding request.

- Operations Manual - \$1,000,000
- Reconciliation RFP - \$350,000
- Crowe Phase I Overrun - \$46,000
- Crowe Phase II - \$102,000
- Litigation - \$100,000
- System Support - \$570,000
- IPSI until June 30, 2004 - \$1,000,000
- Forensic Audit - \$84,000
- Crowe 2004 70 ½ - \$47,250

MOTION duly made and carried to accept the request from the Audit and Budget Committee for \$3,299,250 additional funding as outlined.

Proposed by: Garland Ferrell
Seconded by: Connie Thurman
Votes: Four in favor, 0 against, 1 abstention

- Ms. Julian explained on Mr. Ferrell's behalf that in 2002 and 2003, on two separate occasions, there was a transfer of stocks to mutual fund shares that was brought to the Board's attention, but no official action was taken. Ms. Julian noted that this issue was listed in the State Board of Accounts findings. Ms. Julian noted that ratification was requested for approval of the two transfers and that the Audit and Budget Committee is now requesting approval from the Board.

MOTION duly made and carried to ratify the staff's transfer of stock to mutual fund shares in 2002 and 2003 as outlined by the State Board of Accounts.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: Five in favor, 0 against, 0 abstentions.

IV. REPORT OF EXECUTIVE DIRECTOR.

- Mr. Hartzler noted that PERF has had internal discussions regarding a pay-for-performance program for PERF effective January 1, 2005. Mr.

Hartzer noted that there would be more discussions regarding this matter in the future.

- Mr. Hartzer noted that a few months ago it was brought to the Board's attention that PERF was considering purchasing software for Internet monitoring. Mr. Hartzer noted that PERF has purchased this software, but prior to installing it, all PERF staff will be educated on this software and what is expected from it.
- Mr. Hartzer provided the Board copies of the Wilshire Research report. Mr. Hartzer noted that this report is quoted highly around the country and he wanted the Board to have it in case publicity is generated because of the report.
- Mr. Hartzer provided the Board with a handout from the New York Times regarding TIPS. Mr. Hartzer noted that this article shows that PERF is moving in the right direction.
- Mr. Hartzer noted that PERF would be opening the new Customer Service Center soon. The grand opening will be the day of the April Board meeting. Mr. Hartzer noted that he has invited media to that event. Mr. Hartzer noted that the Customer Service Center will be very good for our members.
- Mr. Hartzer noted that the State Board of Accounts audit reports will become public sometime in the future and could generate publicity.
- Mr. Kimery noted that PERF is dealing with three early retirement programs now and all are going very well.

V. **ADJOURNMENT.** There being no further business, the meeting was adjourned.